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SUBJECT: BRAZIL: LULA CONTINUES TO SHUFFLE CABINET AMIDST CRISIS

REF: A. BRASILIA 1660

[B](#). BRASILIA 1602

[C](#). BRASILIA 1631

[D](#). BRASILIA 1682

[1](#)1. SUMMARY. On July 6, Brazilian President Lula da Silva announced a long-awaited cabinet shuffle, his third. Lula's hand was forced by a series of interlocking and expanding corruption scandals that have engulfed the GoB and paralyzed Congress since mid-May. The current shuffle started on June 16 with the resignation of Lula's Chief of Staff Jose Dirceu (ref A) and will continue to unfold in the coming days. With these moves, Lula seeks to reorganize his Congressional coalition, expel poor performers from the cabinet, and clarify the positions of candidates and parties in advance of the 2006 elections. In an effort to bring the large, split PMDB party more firmly into his coalition, Lula named three PMDB members as Ministers: Senator Helio Costa will replace Communications Minister Eunicio Oliveira (PMDB); Federal Deputy Saraiva Felipe replaces Health Minister Humberto Costa (from Lula's PT party); and Silas Rondeau, former president of Eletrobras, will take up the Ministry of Mines and Energy, vacant after the former Minister, Dilma Rousseff, became Lula's Chief of Staff on June 21. In addition, on July 8 Lula announced that the president of the Worker's Union Luiz Marinho will replace Labor Minister Ricardo Berzoini. The cabinet shuffle will not make Lula's political position any worse as the corruption scandals batter Brasilia. But taken alone, it will not be enough to restore the GoB's credibility and momentum. The mere fact that Lula has been forced to rely on the fractious PMDB party as a solution to his problems shows just how far the administration has to go before it returns to political normalcy. END SUMMARY.

BRINGING THE PMDB BACK IN

[1](#)2. On July 6, in an effort to address the corruption scandals battering his government and to bring the large, fractious PMDB party back into his coalition, President Lula announced the appointment of three PMDB party members as his new cabinet Ministers:

- Senator Helio Costa, 65, one of PMDB's more influential congressmen, becomes the new Communications Minister. A former TV reporter who spent 25 years in New York City reporting tabloid stories for "Globo" network, Costa currently chairs the congressional inquiry committee investigating illegal migration to the US. Costa replaces Eunicio Oliveira (PMDB-Ceara), who will return to his seat as Federal Deputy and prepare his 2006 campaign for governor of Ceara state;

- Deputy Saraiva Felipe, 53, a physician and university professor specialized in public health issues, takes over the Ministry of Health. Felipe, who hails from the PMDB's "anti-Lula" wing, has strong links with presidential aspirant Anthony Garotinho and is pushing for the PMDB to launching its own presidential candidate against Lula in [2](#)006. Felipe replaces Humberto Costa (PT), who will run for governor in Pernambuco in 2006;

- Silas Rondeau, the former president of Eletrobras, becomes Minister of Mines & Energy. Rondeau has a "technical", rather than political background, but his sponsor is influential Senator Jose Sarney, leader of the PMDB's "pro-Lula" wing.

BESEIGED FROM ALL SIDES

[1](#)3. Despite its internal divisions, the PMDB expected to get at least four Ministries with the cabinet shuffle, maintaining control over Communications and Social Security while gaining two additional cabinet posts (Mines/Energy and Health). However, since its leaders were unable to reconcile the party's opposing wings in support of the government (19 of the 23 Senator and 52 of the 85 deputies agreed to join the government's support base, while the seven PMDB state governors opposed the move outright),

initially President Lula appeared reluctant to award the party a fourth Ministry. Whether the PMDB ends up achieving its goal or not will depend upon whether it is able to retain control of Social Security, currently headed by Senator Romero Juca. Juca, who was nominated less than 4 months ago, is likely to lose his job and return to his Senate seat, from where he will try to defend himself from a set of criminal charges (unrelated to the current scandal) pending before the Supreme Court.

14. Lula seemed hopeful that an increase in the PMDB's profile would bring its opposing wings to his support base; however, soon after the July 6 announcement was made, the seven PMDB governors and the leadership of the party's opposition wing threatened to expel the new Ministers, which may force Lula to keep the Social Security portfolio with the PMDB. Meanwhile, the Speaker of the House's PP party made clear that its role in the Lula administration should be enhanced, perhaps requiring Lula to grant that party another Ministry.

PRESIDENT OF THE WORKER'S UNION BECOMES LABOR MINISTER

15. On July 8, Lula announced the nomination of Worker's Union (CUT) President Luiz Marinho as his new Labor Minister. Marinho is close to President Lula and shares a common background: both were metalworkers, and both gained national recognition after being elected president of the worker's union for the Sao Paulo ABC region. Marinho is supported by the labor movement, and his nomination appeases sectors of the PT that opposed the appointment of Aldo Rebelo, the Presidency's Political Coordinator, to the Ministry of Labor. Marinho replaces Ricardo Berzoini, who will return to his Congressional seat.

OTHER POSSIBLE CABINET CHANGES

16. President Lula's two previous cabinet shuffles were long and public processes, and given the crisis scenario, it was expected that this round would go more quickly. However, the PMDB's inability to unite its wings has made the current process longer and more excruciating. More cabinet moves are expected in the coming days: cabinet officers tainted by scandal or who intend to run for office in the 2006 national elections will likely be asked to step down. Besides Social Security Minister Juca, those likely to leave include Central Bank President Meirelles (ref D), Planalto Communications Secretary Luiz Gushiken, who is gradually being drawn in to the corruption scandal, and Political Coordinator Aldo Rebelo, whose role might be reassigned to Jacques Wagner, the head of the Economic and Social Council. In addition, Lula might merge the Ministry of Cities and National Integration in a super-ministry under the control of Integration Minister Ciro Gomes, and install the Cities Minister Olivio Dutra as president of the Worker's Party (PT).

COMMENT: CABINET SHUFFLE NOT ENOUGH TO RESTORE CREDIBILITY

17. The cabinet shuffle will not make Lula's political position any worse as the corruption scandals batter Brasilia. But taken alone, it will not be enough to restore the GoB's credibility and momentum. The fact that Lula's only option is to count on a divided and fractious PMDB party, has shown that the GoB's (and the PT's) inability to rise above the current scandal and re-establish its Congressional support base may compromise the administration's future agenda, including Lula's reelection.

CHICOLA